

Dear Client and Friends,

July 2009

Below is an overview of recently enacted New Jersey legislations that provides for changes in computing Gross Income Tax and Corporate Income Tax.

Gross Income Tax

The recently enacted legislation temporarily increases the New Jersey Gross Income Tax rates. The New Jersey gross income tax rates for the 2009 taxable year are raised as follows:

- (1) For married individuals filing a joint return and individuals filing as head of household or as a surviving spouse for federal income tax purposes, the tax is:

If taxable income is:	Your tax will be:
Over \$400,000.00 but not over \$500,000.00	\$21,437.50 plus 8.0% of the excess over \$400,000.00
Over \$500,000.00 but not over \$1,000,000.00	\$29,437.50 plus 10.25% of the excess over \$500,000.00
Over \$1,000,000.00	\$80,687.50 plus 10.75% of the excess over \$1,000,000.00

- (2) For married individuals filing separately, unmarried individuals other than individuals filing as head of household or as a surviving spouse for federal income tax purposes, and estates and trusts, the tax is:

If taxable income is:	Your tax will be:
Over \$400,000.00 but not over \$500,000.00	\$23,353.75 plus 8.0% of the excess over \$400,000.00
Over \$500,000.00 but not over \$1,000,000.00	\$31,353.75 plus 10.25% of the excess over \$500,000.00
Over \$1,000,000.00	\$82,603.75 plus 10.75% of the excess over \$1,000,000.00

Taxpayers and their employers are not subject to penalty and interest for underpayments of estimated tax or withholdings on income directly attributable to the rate changes received by the taxpayer before October 1, 2009.

Property tax deductions have also been reduced in the new legislation. For the 2009 tax year, taxpayers who have a gross income of more than \$250,000 and are not: (1) 65 years of age or older; or (2) allowed a personal exemption as a blind or disabled individual, are not eligible for the property tax deduction. Additionally, the property tax deduction is

limited to a maximum of \$5,000 for taxpayers who have gross income of more than \$150,000, but not exceeding \$250,000, and are not: (1) 65 years of age or older; or (2) allowed a personal exemption as a blind or disabled individual.

Lastly, New Jersey lottery winnings are no longer exempt from personal income tax for tax years beginning after 2008. Any winnings exceeding \$10,000 are taxable for New Jersey Gross Income Tax purposes. The legislation provides for the New Jersey State Lottery to withhold income tax at 3% on the taxable winnings for Gross Income Tax purposes.

Corporate Income Tax

The recently enacted legislation extends the surtax on corporation business tax for one year. The surtax is 4% of the taxpayer's corporation business tax liability remaining after application of any allowed credits, other than credits for installment payments, estimated payments made with a request for an extension of time for filing a return or overpayments from prior privilege periods. The surtax was initially imposed for privilege periods ending on or after July 1, 2006 but before July 1, 2009. The surtax will now apply for privilege periods ending on or after July 1, 2006 but before July 1, 2010.

The legislation also decouples corporation business tax from section 1231 of the American Recovery and Reinvestment Act of 2009, which added subsection (i) to Section 108 of the Internal Revenue Code ("IRC"). IRC §108(i) allows certain businesses that repurchase debt in 2009 and 2010 to defer reporting discharge of indebtedness income as taxable income until 2014 and then to spread this income over the five tax years from 2014 through 2018.

By decoupling from IRC §108(i), corporate taxpayers will not be able to defer the discharge of indebtedness income but will be required to report the income in the year it is earned. However, corporate taxpayers will be able to exclude the income from New Jersey taxable income in future years when it is required to be recognized federally as taxable income pursuant to IRC §108(i). Accordingly, the discharge of indebtedness income will not be taxed twice in New Jersey.

We hope this information is helpful. There is more on the horizon. If you would like more details about this or any other aspect of the new law, please call our offices and ask to speak to one of our shareholders or email us at info@taxwarriors.com.

Sincerely,

Drucker & Scaccetti, P.C.

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